

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE SOUTHERN DISTRICT OF TEXAS  
CORPUS CHRISTI DIVISION**

In re:	) Jointly Administered
	)
SCOTIA DEVELOPMENT LLC, <i>et al.</i> , <sup>1</sup>	) Case No. 07-20027-C-11
	)
Debtors.	) Chapter 11

**APPLICATION OF THE OFFICIAL UNSECURED CREDITORS'  
COMMITTEE FOR ORDER APPROVING EMPLOYMENT OF CHANIN  
CAPITAL PARTNERS L.L.C. AS FINANCIAL ADVISORS TO THE COMMITTEE**

**A HEARING WILL BE CONDUCTED ON THIS MATTER ON APRIL 3, 2007 AT 10:00 A.M. BEFORE THE HONORABLE RICHARD S. SCHMIDT, 1133 NORTH SHORELINE DRIVE, 2<sup>ND</sup> FLOOR, CORPUS CHRISTI, TEXAS.**

**IF YOU OBJECT TO THE RELIEF REQUESTED, YOU MUST RESPOND IN WRITING, SPECIFICALLY ANSWERING EACH PARAGRAPH OF THIS PLEADING. UNLESS OTHERWISE DIRECTED BY THE COURT, YOU MUST FILE YOUR RESPONSE WITH THE CLERK OF THE BANKRUPTCY COURT WITHIN TWENTY-THREE DAYS FROM THE DATE YOU WERE SERVED WITH THIS PLEADING. YOU MUST SERVE A COPY OF YOUR RESPONSE ON THE PERSON WHO SENT YOU THE NOTICE; OTHERWISE, THE COURT MAY TREAT THE PLEADING AS UNOPPOSED AND GRANT THE RELIEF REQUESTED.**

TO THE HONORABLE RICHARD S. SCHMIDT, U.S. BANKRUPTCY JUDGE:

The Official Unsecured Creditors' Committee (the "Committee") in the above-captioned cases filed by the debtors and debtors-in-possession herein (collectively, the "Debtors") hereby submits this application (the "Application") to employ Chanin Capital Partners L.L.C. ("Chanin"), as its financial advisors. In support of this Application, the Committee respectfully states as follows:

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<sup>1</sup> The Debtors are the following entities: Scotia Development LLC; The Pacific Lumber Debtors; Britt Lumber Co., Inc.; Salmon Creek LLC; Scotia Inn Inc.; and Scotia Pacific Debtors LLC.

**Jurisdiction**

1. This Court has jurisdiction over this Application pursuant to 28 U.S.C. §§ 157 and 1334.

2. The statutory predicates for the relief sought herein are sections 328 and 1103 of the Bankruptcy Code.

**Relevant Background**

3. On January 18, 2007 (the “Petition Date”), the Debtors commenced the instant cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code.

4. The Debtors have continued in the possession of their property and have continued to operate and manage their business as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

5. On January 25, 2007, the United States Trustee appointed the Committee in the Debtors’ bankruptcy cases. The Committee has selected Chanin as its financial advisors, subject to Court approval.

**Application to Retain and Employ Chanin**

6. By this Application, pursuant to sections 328 and 1103 of the Bankruptcy Code, the Committee seeks to employ Chanin as financial advisors to the Committee, effective as of February 2, 2007, to perform the financial advisory services set forth herein. A copy of Chanin’s engagement letter with the Committee is attached hereto as **Exhibit A** (the “Engagement Letter”).

7. Section 328(a) of the Bankruptcy Code authorizes a committee appointed under section 1102 of the Bankruptcy Code to employ, with the Court's approval, professional persons on any reasonable terms and conditions of employment. 11 U.S.C. §§ 328(a), 1103(a). Pursuant to section 1103(b) of the Bankruptcy Code, an attorney or accountant employed to represent the committee may not, while employed by such committee, represent any other entity having an adverse interest in connection with the case. 11 U.S.C. § 1103(b).

8. Chanin has advised the Committee that Chanin does not represent any other entity having an adverse interest in connection with the Debtors or their bankruptcy cases. In addition, the Committee has reviewed the *Declaration of Peter R. Corbell in Support of Application of the Official Unsecured Creditors' Committee for Order Approving Employment of Chanin Capital Partners L.L.C. as Financial Advisors to the Committee*, filed concurrently herewith (the "Corbell Declaration").

9. The Committee has selected Chanin because of its extensive expertise and knowledge in financial restructurings and business reorganizations. Chanin is a distinguished leader in providing advisory services to companies, creditors and stakeholders in financially distressed situations. Since 1984, Chanin's restructuring group has advised hundreds of clients across all industries, consummating transactions valued at over \$157 billion. Chanin has also served as financial advisors to unsecured creditors' committees in numerous chapter 11 cases. Chanin's depth of experience makes it highly qualified to represent the Committee. Therefore, the Committee believes that Chanin's retention as financial advisors is in the best interest of the Debtors' unsecured creditors.

**Scope of Engagement**

10. Subject to further order of this Court and as set forth in the Engagement Letter, Chanin may be required to render the following services to the Committee, among others:

- (a) Review and analyze the financial and operating statements of the Debtors;
- (b) Evaluate the assets and liabilities of the Debtors;
- (c) Review and analyze the Debtors' business and financial projections;
- (d) Evaluate the Debtors' debt capacity in light of its projected cash flows;
- (e) Assist in the determination of an appropriate capital structure for the Debtors;
- (f) Determine a theoretical range of values for the Debtors on a going concern basis;
- (g) Evaluate the sales process for certain assets of the Debtors as a going concern;
- (h) Advise the Committee on tactics and strategies for negotiating with the Debtors and other purported stakeholders;
- (i) Render financial advice to the Committee and participate in meetings or negotiations with the Debtors and other purported stakeholders in connection with any restructuring, modification or refinancing of the Debtors' existing debt obligations;

(j) Advise the Committee on the timing, nature, and terms of new securities, other consideration or other inducements to be offered pursuant to the restructuring relating to the Chapter 11 cases; and

(k) Provide the Committee with other appropriate general restructuring advice.<sup>2</sup>

### **Compensation Structure**

11. As set forth in the Engagement Letter, the Committee has agreed (subject to Court approval) that Chanin will be compensated, as an administrative expense in the Debtors' bankruptcy cases, at a fixed rate of \$125,000 per month (the "Monthly Fees") for the term of the engagement. Subject to the Court's interim fee procedures and any other applicable rules or guidelines, the Monthly Fees shall be paid in advance on the first day of each month, and shall be due and payable for all months from the inception of this engagement through the earlier of (a) the termination of Chanin's employment, (b) the effective date of a confirmed plan of reorganization, (c) the closing of a sale of all or substantially all assets of the Debtors, pursuant to an order or orders of the Bankruptcy Court, (d) the date of entry of orders converting the chapter 11 cases to cases under chapter 7 of the Bankruptcy Code, or (e) the date of entry of orders dismissing the chapter 11 cases.

12. In addition, subject to the Court's interim fee procedures and any other applicable rules or guidelines, Chanin shall be entitled to monthly reimbursement of reasonable

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<sup>2</sup> The advisory services and compensation arrangements set forth above and in the Engagement Letter do not encompass other investment banking or financial advisory services not set forth herein, such as litigation support. If the Committee and Chanin later determine to expand Chanin's scope of services to include any investment banking or other financial advisory services not set forth above or in the Engagement Letter, such future agreement will be the subject of a further and separate written agreement of the parties and Bankruptcy Court approval.

out-of-pocket expenses incurred in connection with the services to be provided as part of its engagement by the Committee in this case. Monthly Fees plus reimbursement of reasonable and documented out-of-pocket expenses as billed will be payable, subject to the Court's interim fee procedures and any other applicable rules or guidelines, upon the first of each month to Chanin.

13. The Committee seeks approval of the fee structure set forth above pursuant to section 328(a) of the Bankruptcy Code, which provides in pertinent part that a committee "with the court's approval, may employ or authorize the employment of a professional person under section 327 . . . [of the Bankruptcy Code] . . . on any reasonable terms and conditions of employment, including . . . on a fixed or percentage fee basis, or on a contingent fee basis." 11 U.S.C. § 328(a). Accordingly, section 328(a) permits the Court to approve Chanin's proposed compensation structure outlined above.

14. Chanin's compensation and expenses in these chapter 11 cases shall be subject only to the standard of review set forth in section 328(a) of the Bankruptcy Code (and shall not be subject to the standard of review set forth in section 330 of the Bankruptcy Code), the fee and expense guidelines established by the United States Trustee, and any other applicable orders of the Court; further, the section 328(a) standard of review shall not limit the scope of review and objection, if any, of the United States Trustee. Chanin shall not be required to maintain time records. It is anticipated that the Debtors shall pay all fees and expenses of Chanin as permitted by the Bankruptcy Court's interim compensation order and any other applicable rules or guidelines. Chanin has not received or requested a retainer in these cases.

15. The Committee believes that the proposed compensation structure set forth herein and in the Engagement Letter is reasonable and appropriate under the circumstances of these cases. Chanin's restructuring expertise as well as its capital markets knowledge, financing skills and mergers and acquisitions capabilities, some or all of which may be required by the Committee during the term of Chanin's engagement hereunder, were important factors in determining the amount of the fees set forth herein, and that the ultimate benefit to the Committee of Chanin's services could not be measured merely by reference to the number of hours to be expended by Chanin's professionals in the performance of such services. It is also anticipated that a substantial commitment of professional time and effort will be required of Chanin and its professionals over the life of the engagement, which if compensated at standard hourly rates, could easily exceed the Monthly Fees contemplated herein and in the Engagement Letter.

#### **Indemnification**

16. The Engagement Letter provides that the Debtors shall provide indemnification and other obligations set forth in Chanin's standard form of indemnification agreement attached as Schedule I to the Engagement Letter, which provisions are customary in agreements of this type and in large chapter 11 cases wherein financial advisors are employed.

#### **Disinterestedness**

17. To the best of the Committee's knowledge and based on the Corbell Declaration, Chanin has no connection with the Debtors, their creditors, any other party in interest herein, their respective attorneys or professionals, the United States Trustee or any

person employed in the Office of the United States Trustee, except as disclosed in the Corbell Declaration. Chanin does not hold, or represent any entity having, an adverse interest in connection with the Debtors or their bankruptcy cases. Chanin does not employ any person who is related to a judge of this Court. Accordingly, Chanin is qualified to represent the Committee under sections 328 and 1103 of the Bankruptcy Code.

WHEREFORE, the Committee respectfully requests that this Court approve the employment of Chanin Capital Partners L.L.C. as financial advisors to the Committee, effective as of February 2, 2007, to render services as described above with compensation to be paid as an administrative expense.



Dated: February 27, 2007

OFFICIAL UNSECURED CREDITORS'  
COMMITTEE OF SCOTIA DEVELOPMENT LLC,  
*et al.*

By /s/ Sharon E. Duggan

Sharon E. Duggan  
Interim Chairperson

**PROOF OF SERVICE**

STATE OF CALIFORNIA                     )  
  )  
CITY OF SAN FRANCISCO                )

I, Hung Phan, am employed in the city and county of San Francisco, State of California. I am over the age of 18 and not a party to the within action; my business address is 150 California Street, 15th Floor, San Francisco, California 94111-4500.

On March 5, 2007, I caused to be served the

**APPLICATION OF THE OFFICIAL UNSECURED CREDITORS' COMMITTEE FOR ORDER APPROVING EMPLOYMENT OF CHANIN CAPITAL PARTNERS L.L.C. AS FINANCIAL ADVISORS TO THE COMMITTEE;**

**AFFIDAVIT OF PETER R. CORBELL IN SUPPORT OF APPLICATION OF THE OFFICIAL UNSECURED CREDITORS' COMMITTEE FOR ORDER APPROVING EMPLOYMENT OF CHANIN CAPITAL PARTNERS L.L.C. AS FINANCIAL ADVISORS TO THE COMMITTEE;**

**[PROPOSED] ORDER APPROVING EMPLOYMENT OF CHANIN CAPITAL PARTNERS L.L.C. AS FINANCIAL ADVISORS TO THE OFFICIAL UNSECURED CREDITORS' COMMITTEE**

in this action by placing a true and correct copy of said document(s) in sealed envelopes addressed as follows:

*See Attached Service List*

☒ **(BY MAIL)**, I am readily familiar with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. Postal Service on that same day with postage thereon fully prepaid at San Francisco, California, in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage meter date is more than one day after date of deposit for mailing in affidavit.

I declare under penalty of perjury, under the laws of the State of California and the United States of America that the foregoing is true and correct.

Executed on March 5, 2007, at San Francisco, California.

  /s/ Hung Phan  
Hung Phan, Legal Assistant

<b>USBC – Southern District of Texas, Corpus Christi Div.          Scotia Development, LLC et al.          Case No 07-20027-C-11</b>		
<b>Debtor: Scotia Pacific LLC aka SCOPAC</b>		
<b>Debtor</b> Gary L. Clark Scotia Pacific LLC 125 Main Street Scotia, CA 95565-0000	<b>Attorneys for Debtor Scotia Pacific LLC</b> John F. Higgins James Matthew Vaughn Porter & Hedges, L.L.P. 1000 Main Street, 36th Floor Houston, TX 77002	<b>Attorneys for Debtor Scotia Pacific LLC</b> Kathryn Coleman Gibson Dunn & Crutcher LLP 200 Park Avenue, 47th Floor New York, NY 10166-0193
<b>Attorneys for Debtor Scotia Pacific LLC</b> Eric J. Fromme Gibson Dunn & Crutcher LLP Jamboree Center 4 Park Plaza, Suite 1400 Irvine, CA 92614		
<b>SCOPAC Secured Creditors / Counsel for Secured Creditors</b>		
<b>Indenture Trustee</b> The Bank of New York Trust Company, N.A. John Stohlmann 600 North Pearl St., Suite 420 Dallas, TX 75201	Bank of America Clara Yang Strand 333 South Hope Street Los Angeles, CA 90071	<b>Counsel for Bank of America</b> Evan M. Jones Brian M. Metcalf O'Melveny & Myers LLP 400 South Hope Street Los Angeles, CA 90071-2899
<b>Counsel to Ad Hoc Committee of Timber Noteholders</b> Evan D. Flaschen Bingham McCutchen One State Street Hartford, CT 06103-3178	<b>Counsel for The Bank of New York Trust Company, N.A., Indenture Trustee</b> Rhett G. Campbell Diana M. Woodman Matthew R. Reed Thompson & Knight LLP 333 Clay Street, Suite 3300 Houston, TX 77002	<b>Counsel for The Bank of New York Trust Company, N.A., Indenture Trustee</b> Ira L. Herman Thompson & Knight LLP 919 Third Avenue, 39th Floor New York, NY 10022-3915
<b>Debtor: The Pacific Lumber Company aka PALCO and Certain Subsidiaries</b>		
<b>Debtor</b> The Pacific Lumber Company 449 15th Street, Suite 401 Oakland, CA 94612	<b>Debtor</b> Scotia Development, LLC 921 N. Chaparral, Suite 104 Corpus Christi, TX 78401	<b>Debtor</b> Britt Lumber Co., Inc. 449 15th Street, Suite 401 Oakland, CA 94612
<b>Debtor</b> Salmon Creek, LLC P.O. Box 37 Scotia, CA 95565	<b>Debtor</b> Scotia Inn, Inc. 100 Main Street Scotia, CA 95565	

<b>Counsel for Debtors: Scotia Development, LLC, The Pacific Lumber Company, Britt Lumber Co., Inc., Salmon Creek, LLC, Scotia Inn, Inc.</b> Shelby A. Jordan Harlin C. Womble, Jr. Nathaniel Peter Holzer Kevin J. Franta Jordan, Hyden, Womble, Culbreth & Holzer, P.C. 500 N. Shoreline Drive Suite 900 Corpus Christi, TX 78471	<b>Counsel for Debtors: Scotia Development, LLC, The Pacific Lumber Company, Britt Lumber Co., Inc., Salmon Creek, LLC, Scotia Inn, Inc.</b> Jeffrey L. Schaffer Gary M. Kaplan William J. Lafferty Howard, Rice, Nemerovski, Canady, Falk & Rabkin, P.C. Third Embarcadero Center, 7th Floor San Francisco, CA 94111-4024	
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<b>Counsel for Marathon Structured Finance Fund, LP</b> David Neier Winston & Strawn, LLP 200 Park Avenue New York, NY 10166		
<b>UNITED STATES TRUSTEE</b>		
<b>U.S. Trustee</b> Christine March United States Trustee 606 N. Carancahua, Suite 1107 Corpus Christi, TX 78476	<b>Counsel to U.S. Trustee</b> Knight Elsberry, Esq. Office of the General Counsel Executive Office for United States Trustees United States Department of Justice 20 Massachusetts Avenue, N.W. Suite 8400 Washington, D.C. 20530	
<b>COMMITTEE OF UNSECURED CREDITORS</b>		
Environmental Protection Information Center, and Sierra Club Interim Chairman Sharon E. Duggan, Esq. Law Offices of Sharon E. Duggan 370 Grand Avenue, Suite 5 Oakland, CA 94610	John Miller, Interim City Manager City of Rio Dell 675 Wildwood Ave. Rio Dell, CA 95562	Pacific Coast Trading, Inc. c/o Miles T. Crail 1690 Green Ash Road Reno, NV 89511
United Steelworkers c/o David Jury Five Gateway Center, Suite 807 Pittsburgh, PA 15222	Steve Cave 2332 Wrigley Road Eureka, CA 95503	

GOVERNMENTAL AGENCIES		
Susan Combs, Comptroller LBJ State Office Bldg. 111 E. 17 <sup>th</sup> Street P.O. Box 13528 Austin, TX 78711	Securities Exchange Commission Attn: Merri Jo Gillette, Regional Director 175 W. Jackson Blvd., Suite 900 Chicago, IL 60604-2908	Internal Revenue Service P.O. Box 21126 Philadelphia, PA 19114
Internal Revenue Service 1919 Smith Street Stop 5022 HOU Houston, TX 77002	U.S. Department of Justice 950 Pennsylvania Ave., NW Washington, DC 20530-0001	U.S. Attorney's Office Southern District Donald J. Degabrielle, Jr. P.O. Box 61129 Houston, TX 77208
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Louisiana Department of Revenue P.O. Box 91011 Baton Rouge, LA 70821-9011	Michigan Department of Treasury 430 W. Allegan Street Lansing, MI 48922	Missouri Director of Revenue P.O. Box 3020 Jefferson City, MO 65105-3020
Corporation Income Tax P.O. Box 700 Jefferson City, MO 65105-0700	Ohio Treasurer of State Ohio Department of Taxation P.O. Box 804 Columbus, OH 43216-0804	West Virginia State Tax Department Bankruptcy Unit P.O. Box 766 Charleston, WV 25323-0766
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<b>U.S. Department of the Interior</b> <b>U.S. Fish and Wildlife Service</b> California and Nevada Operations: Steve Thompson, California and Nevada Operations (CNO) Manager Kenneth McDermond, Deputy Operations Manager 2800 Cottage Way Sacramento, CA 95825	<b>U.S. Department of Commerce</b> <b>National Oceanic and</b> <b>Atmospheric Administration;</b> <b>National Marine Fisheries Service,</b> <b>Southwest Regional Office</b> National Marine Fisheries Services US Department of Commerce Attn: Dr. William Hogarth Deanna Harwood, Office of Counsel 501 W. Ocean Blvd., Suite 4200 Long Beach, CA 90802	<b>U.S. Department of Commerce</b> <b>National Oceanic and</b> <b>Atmospheric Administration;</b> <b>National Marine Fisheries Service</b> Lisa Roberts John Clancey 1655 Heindon Road Arcata, CA 95521

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<b>Counsel to People of State of CA</b> Paul V. Gallegos Humbolt County District Attorney 825 5 <sup>th</sup> Street Eureka, CA 95501	<b>Counsel to Environmental Protection Information Center and Sierra Club</b> Brian Gaffney, Esq. Law Offices of Brian Gaffney 605 Market Street, Suite 505 San Francisco, CA 94105	<b>Interested Party</b> John C. Morrison 1890 Loop Road Fortuna, CA 95540
<b>Interested Party</b> Ed Lewis, President Lewis Logging 3897 Rohnerville Road Fortuna, CA 95540	<b>Counsel for Jeff King Contractor, Inc.</b> Bobbie G. Bayless Bayless & Stokes 2931 Ferndale Houston, Texas 77098	